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GENERAL

1. British officials believe failure of Berlin conference likely:

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The American embassy in London reports that Foreign Office officials are increasingly pessimistic about the probable results of the four-power meeting in Berlin.

They argue that one factor leading to the stalemate in the Panmunjom talks may be a Soviet desire to make the Berlin talks focus on the necessity for five-power talks about the Far East. The Soviet representatives, they fear, will propose dismissing the German question with a recommendation that East and West Germany begin detailed discussions.

Comment: Although there has been no official Soviet reply to the Western proposal for a four-power conference, there have been some hints that the USSR will attend. There is no indication that the Kremlin is prepared to discuss the German problem substantively at the projected conference.

2. Greece proposes expanding Balkan treaty to include formal defense pact:

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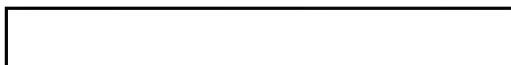


Foreign Minister Stephanopoulos told Ambassador Cannon on 8 December that the Greek general staff wants the Greek-Turkish-Yugoslav treaty of friendship and collaboration expanded to include a formal military agreement. The general staff desires provisions for automatic joint military action in the event of an attack by Bulgaria on any one of the signatories.

Stephanopoulos assured Cannon that he did not underrate the complications involved and that the recommendations represented the desiderata of the general staff rather than what might be practicable now.

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Cannon believes, however, that current developments in the Balkan relationship are leading to a situation that the major NATO powers have been anxious to avoid.

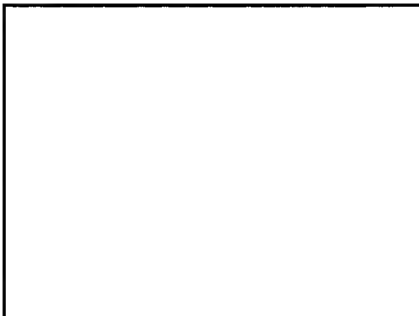
Comment: The proposed amendment to the Ankara treaty would go far beyond the present limits of contingent military planning urged by the major Western powers. It is indicative of the Greek general staff's concern over the country's relatively unprotected borders and its impatience at the slowness of tripartite military planning.

There is no indication that the Turks are as impatient as the Greeks over lagging military coordination in southeastern Europe.

FAR EAST

3. Japanese reparations proposal unacceptable to Philippines:

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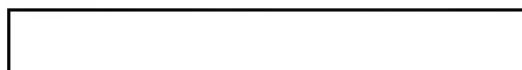
The Philippine Foreign Ministry stated on 10 December that Japan's proposal to pay reparations of \$250,000,000 in services, plus a small supply of capital goods, was unacceptable. The Philippine foreign secretary said that this was less than what Japanese foreign minister Okazaki had offered during his October visit to Manila.

Comment: The Japanese Foreign Ministry had indicated to American officials in Tokyo that the \$250,000,000 was an initial negotiating figure which might be increased to \$400,000,000. The Japanese probably are reserving their "best and final" offer for the incoming Magsaysay administration, which will assume office in January.

Any Philippines reparations settlement will set the pattern for subsequent Japanese agreements with Burma, Indonesia, and the Associated States and will improve Japan's prospects for developing economic relations with Southeast Asia.

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4. Good rice harvest estimated in Communist China:

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This year's production of rice, soybeans, and peanuts in Communist China has been tentatively estimated by the American consulate general in Hong Kong to be greater than that in 1952, which was a good year.

Comment: This estimate indicates that the Peiping regime is in a stronger food position than previously expected. Rice and oilseeds are the crops on which it depends for export and for feeding the urban population and armies.

Decreases in the production of wheat and other grains as a result of poor weather have necessitated rationing in some cities and will have an even greater effect on the food supply of some rural areas. The grain shortages expected this winter in northern China and Manchuria will not seriously interfere with Peiping's major programs.

SOUTHEAST ASIA

5. Chiang Kai-shek makes "last appeal" to Nationalist troops in Burma:

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The Chinese Nationalist Foreign Ministry has given the American ambassador at Taipei a translation of a "last appeal" sent by Chiang Kai-shek on 5 December to

Nationalist forces in Burma. Chiang reportedly informed the forces that after thorough consideration he felt that there was no alternative to evacuation and no other hope for their survival.

Comment: Taipei on 11 December claimed to have received information from Mong Hsat, the Nationalist headquarters in Burma, indicating that up to 3,000 more of the estimated 10,000 troops still in Burma may be evacuated.

The Nationalists have possibly decided to abandon the Mong Hsat area, but to maintain their tie with Karen insurgents to the south. This would enable them to keep their hold on the opium traffic.

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NEAR EAST - AFRICA

6. Sudan administration concerned over possible visit of Nagib:

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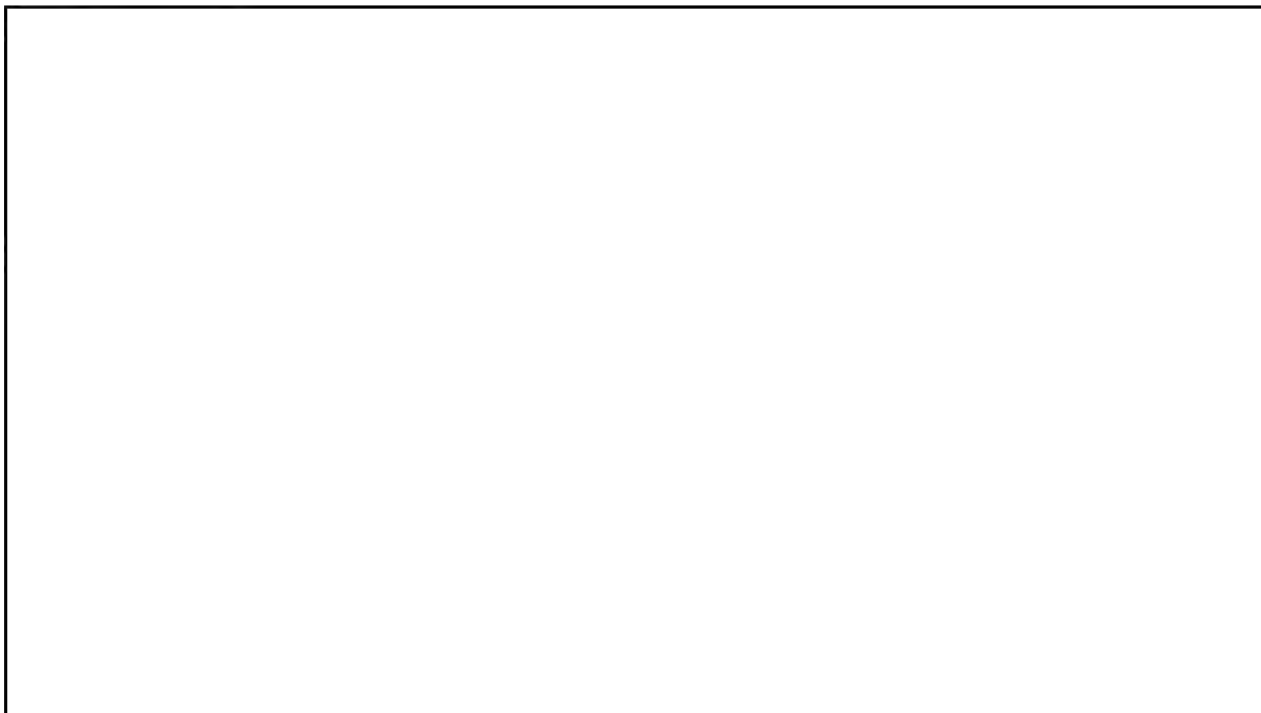


The possibility that General Nagib will soon visit the Sudan for the opening of the newly elected Sudanese parliament has concerned British administrators in Khartoum. They fear that his visit would become a "triumphal tour."

To counter this, Britain is considering sending Admiral Mountbatten to visit the Sudan. London believes Mountbatten would be its best choice because of his reputation as the "man who gave India to the Indians."

Comment: Nagib informed the press on 30 November that he hoped to visit Khartoum at the earliest opportunity, probably at the time of the inauguration of the new parliament. A visit by Nagib could mean an intensification of Cairo's campaign to extend its influence in the Sudan.

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8. Italy considers reduction of armed forces:

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Italian defense minister Taviani has informed the American embassy in Rome that a shortage of funds may force a reduction in the number of Italian divisions. He added that the government has no intention of increasing defense appropriations.

Taviani also commented that war with the Orbit is not imminent, and that in view of the unsettled Italian political situation, parliamentary support for an increased defense program would be uncertain.

Comment: Taviani's statement on the eve of the NATO ministerial meeting is the first indication that the Pella government has ended its months-long period of uncertainty regarding force goals. The budget passed in October had reduced appropriations but there was no indication at that time that a reduction in force goals was contemplated.

Premier Pella, who as treasury minister was the leading opponent of increased defense appropriations in the De Gasperi cabinet, had indicated last year that after the June 1953 elections expenditures would be increased to enable Italy to meet NATO force goals.

9. CSC High Authority split may defer action against steel cartel:

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Jean Monnet, president of the Coal-Steel Community High Authority, will not be able to find the necessary support for a motion for immediate action against the steel export cartel, in the opinion of Dirk Spierenburg, prominent Dutch member of the High Authority. He believes that even if such a motion were passed, it would be overruled by the CSC Court of Justice, and that in any case, action against cartel agreements affecting trade within the community should come first.

Spierenburg anticipates High Authority action against the south German coal cartel within six weeks, and against the Ruhr coal cartel and the French steel association by 1 April.

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Comment: There have been previous indications of a division within the CSC executive over priorities on anticartel measures. The cartel issue, particularly at a time when sales difficulties are promoting cartelization, can be expected to provide the most severe test to date of the 17-month-old community's authority.

The governments of several member countries are apparently leaning toward support of the producers' argument that export cartels lie beyond CSC jurisdiction.

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